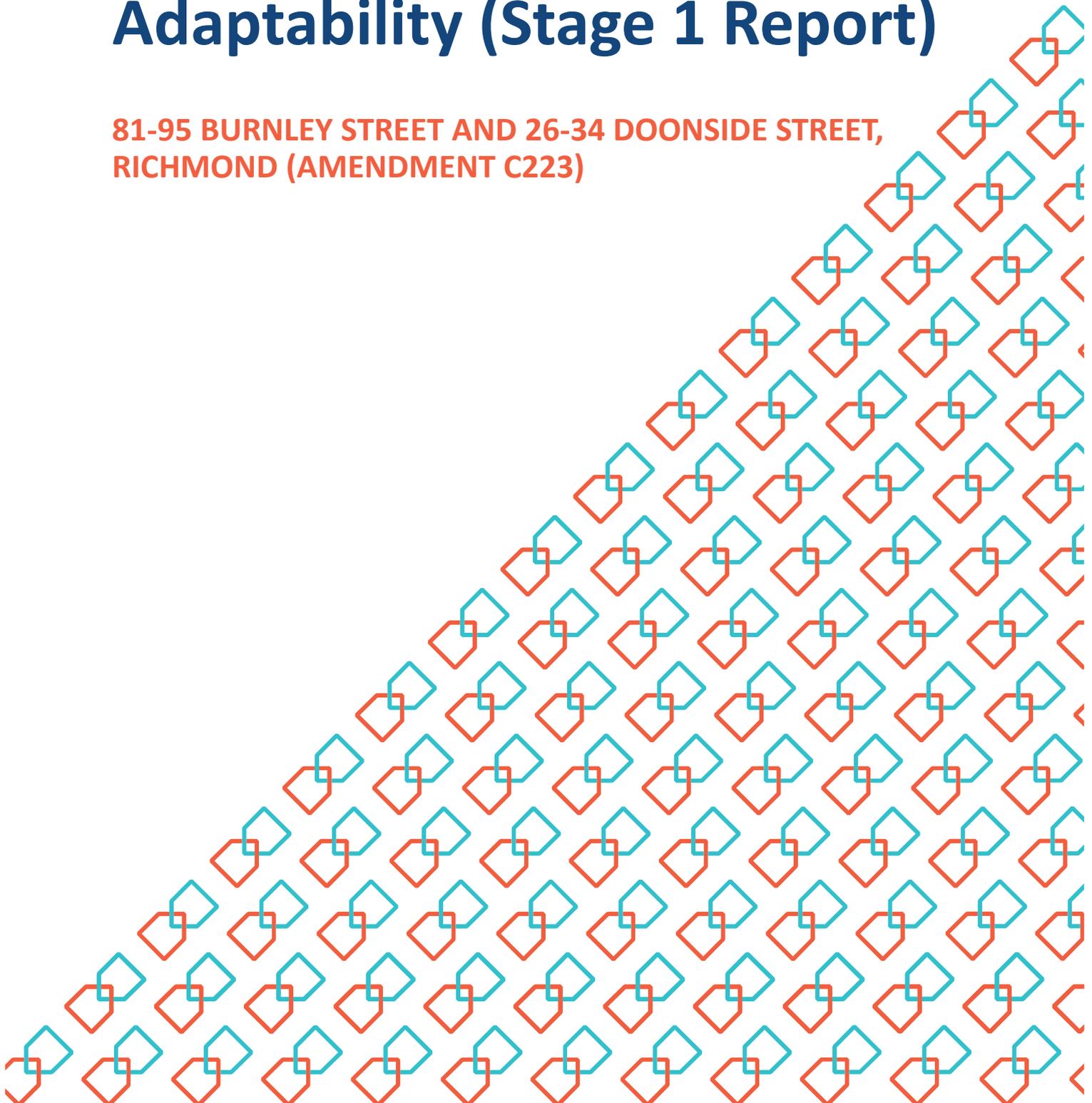




**AFFORDABLE
DEVELOPMENT
OUTCOMES**

Housing Diversity and Adaptability (Stage 1 Report)

**81-95 BURNLEY STREET AND 26-34 DOONSIDE STREET,
RICHMOND (AMENDMENT C223)**



Contents

- Executive Summary 2**
- State and Local Policy Context..... 6**
- Stage 1 Housing Affordability and Diversity Assessment 8**
 - Housing Diversity..... 8
 - Affordable Housing Overview 10
 - Preliminary Affordable Housing Need Assessment 11
- Affordable Housing Delivery Proposal 13**
 - Industry engagement..... 13
 - Proposed delivery vehicles for further investigation..... 14
 - Securing the outcome..... 16

This Report has been prepared by Affordable Development Outcomes at the request of the representatives of the land owner of 81-95 Burnley Street and 26-34 Doonside Street, Richmond. Affordable Development Outcomes is not liable to any person or entity for any damage or loss that has occurred, or may occur, in relation to that person or entity taking or not taking action in respect of any representation, statement, opinion or advice referred within this report.

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Executive Summary

The **Housing Diversity and Adaptability Stage 1 Report** has been prepared by Affordable Development Outcomes on behalf of the representatives of the land owner of 81 Burnley Street and 26-34 Doonside Street, Richmond (the Site) following a request of the Minister for Planning (via delegation) that such a report be prepared as a condition of the public exhibition of Amendment C223 proceeding.

The Report is a preliminary Stage 1 Report, noting that detailed schematics and site feasibility has not been prepared at this stage of the planning process (pre-rezoning) and that a comprehensive Housing Diversity and Adaptability Stage 2 Report will be developed as part of the Development Plan in accordance with the proposed Schedule 15 to the Development Plan Overlay (DPO15) clause 3.2, which notes:

“A Housing Diversity and Adaptability Report must be prepared which provides the following information:

- *A demographic analysis of the types of people and households anticipated to live within the development based on the proposed dwelling design and bedroom mix;*
- *The model to provide 10% of the overall housing stock as affordable housing;*
- *Demonstrate how the development plan responds to the particular housing needs of future residents across their lifetime.”*

Focus of the Stage 1 Report

In consultation with Council officers it has been agreed that the Stage 1 report will focus on the Affordable Housing component, specifically, to provide further detail on the proposed models that are expected to address the agreement between the Council and the land owner, reflected in the proposed Development Plan Overlay, that 10 per cent of the development will be delivered as Affordable Housing. Initial consideration as to current population needs and the potential development response is considered within this report and will form the basis of the detailed Stage 2 Report.

On the basis that Amendment C223 is approved with this condition, a Stage 2 Housing Diversity and Adaptability Report will be prepared as part of the Development Plan and permit application based on market data, development feasibility and context, Affordable Housing funding options and proposed schematics at that time.

Policy context – State Government definition and Guidance

In June 2018 the State Government established an Objective ‘to facilitate the provision of Affordable Housing in Victoria’ and an Affordable Housing definition in the *Planning and Environment Act 1987* and set out a guidance to support enhanced voluntary negotiation between responsible authorities and land owners in relation to Affordable Housing delivery.

The State Government definition of Affordable Housing is adopted for this Report, being that Affordable Housing for the purposes of the *Planning and Environment Act* is ‘housing, including social housing, that is appropriate for the housing needs of any of the following; very low, low, moderate income households’. This definition reflects the definition adopted by the City of Yarra in its Policy Guidance Note *Affordable Housing Outcomes at Significant Redevelopments (updated November 2018)*.

The State Government has published a Notice setting out the income bands for very low, low and moderate-income earners and guidance as to the matters by which a local authority and land owner may determine affordability for these households, including a methodology to establish affordable price points for rent or purchase. This provides clarity to the household targeting and affordability benchmarks a developer will need to achieve to meet a voluntarily agreed affordability requirement.



The State Government is also implementing a range of investment initiatives that are intended to increase not-for-profit housing agency capacity and grown Social and Affordable Housing. These initiatives will inform the finalisation of the Affordable Housing delivery arrangement for the Site.

Report Structure

This Stage 1 Report:

- Re-affirms the land owner's intention to deliver 10 per cent Affordable Housing within the site;
- Undertakes a preliminary assessment of local housing need and Affordable Housing need in the City of Yarra as a basis for a detailed Stage 2 assessment and report;
- Provides an indication as to how the development proposition could support the needs of a diversity of households to live within the development based on current and forecast market assumptions as to population requirements and the likely development proposition, for further refinement at the detailed design stage; and
- Sets out options by which the ten per cent Affordable Housing could be delivered and meet agreed objectives, with regards to the development context and requirements of any third party purchaser or manager of the dwellings.

Proposed response to address housing diversity and adaptability

It is noted that:

- The types of people and households anticipated to live within the development will be subject to market demand at the point of sale and would reasonably be expected to include a mix of singles and couples and families who are seeking apartment living in Richmond;
- Current population trends indicate a mix of dwelling types and sizes are required across Melbourne including in the City of Yarra, including one, two and three-bedroom units that are appropriate for a range of household types including singles, couples and families, young people, people with disabilities and the aged;
- Trends such as an ageing population and smaller household sizes mean there is a growing need for smaller and accessible dwellings in the Yarra market. Adaptability of dwellings, for example, the capacity to combine one and two-bedroom units in the future is also important to enable a response to changing household demographics and demand over time;
- A range of product types and price points are required to support a diversity of households to enter the market either to purchase or rent;
- There is a need and an opportunity to deliver more stabilised long-term market priced and affordable rental, and to support moderate income people to move into affordable home ownership, noting the current high proportion of renter households in the City of Yarra relative to Greater Melbourne;
- Consideration as to the dwelling diversity, bedroom mix and dwelling adaptability should be undertaken with reference to the wider market surrounding the development, acknowledging that the diversity of the residential development industry interests will lead to a mix of development outcomes being achieved in an area rather than expecting single developments to address the full breadth of housing outcomes required.

It is expected that the intended medium to high density mixed-use development proposition is appropriate and it is recommended that, based on current market trends, the development deliver a mix of one, two and three-bedroom dwellings that respond to the population trends, housing diversity requirements and market demand at the point of pre-sales.



Detailed consideration to trends and housing requirements of residents will be undertaken in the preparation of the Stage 2 Housing Diversity and Adaptability Report and will inform the detailed built form proposal. This will include consideration of dwelling sizes, accessibility, environmental initiatives to reduce living costs, and on-site services to support different households such as aged, families and children.

Affordable Housing requirement

Schedule 15 to the Development Plan Overlay proposes that the land owner must facilitate the provision of Affordable Housing by:

- *Entering into an arrangement with a state government accredited housing association in respect of 10 percent of the total number of dwellings (across the whole of the site as set out in the approved Development Plan for the site whereby those dwellings are to be purchased or managed by that accredited housing association); or*
- *Making other arrangements for the provision of affordable housing by a Not for Profit (registered with the Australian Charities and Not-for-profits Commission) in respect of the same number of dwellings to the satisfaction of the responsible authority.*

The Schedule is subject to Public Exhibition and Council endorsement.

It is noted that there is no mandatory control or standardised and clear incentive-based planning system in place in the City of Yarra to offset the costs of the delivery of the proposed Affordable Housing requirement. The 10 per cent Affordable Housing contribution is significantly above the Council's original five per cent Affordable Housing aspiration set out in the Council's policy at the point the planning amendment was first referred to the Council and State Government for approval to proceed to public exhibition (2018). It is noted that the Council policy was amended in November 2018 to reflect a 10 per cent Affordable Housing expectation for significant redevelopment sites.

The land owner has agreed to consider how it will support 10 per cent Affordable Housing being delivered on the basis that this commitment:

1. Positively enhances the development proposition;
2. Responds to the evidence of local Affordable Housing need, which includes a need for a diversity of affordable rental and purchase options for low to moderate income households (in accordance with State Government policy), while acknowledging that this need cannot be purely addressed through voluntary planning negotiations alone;
3. Exceeds the minimum five per cent Affordable Housing policy expectations that was set out in the Council's original Policy Guidance that was applicable at the point the original application was considered by the Council and the 10 per cent requirement included within the draft Schedule;
4. Enables a degree of flexibility as to the delivery model which will be based on an assessment of a range of models that could meet the agreed objectives and requirements to be accepted as Affordable Housing in accordance with Schedule 15; and
5. Is supported by any third-party partner, investor or housing manager and does not impede on the development progressing.

Proposed principles and assessment criteria

The following principles are recommended to guide the assessment as to whether the proposed delivery model(s) will achieve an acceptable and deliverable Affordable Housing outcome for a site:

1. Deliverable;
2. Targeted, affordable and appropriate;



3. Long-term retention of value;
4. Quality and integration;

Further details are set out within the Report.

Proposed response to Affordable Housing

A preliminary analysis of various options by which the land owner could meet the proposed requirement in accordance with the State Government framework and adopted definition has been undertaken, noting that at the point of detailed schematics and costings, detailed feasibility analysis and modelling and engagement with potential partners will be undertaken to determine the final delivery model.

The Stage 2 Report update will take into these aspects and also give consideration guidance expected to be provided by the State Government as to the potential structure of voluntarily agreed outcomes and the wider policy and funding circumstances at the time.

At this point in time the following Affordable Housing models are proposed to align with the proposed Affordable Housing criteria and are recommended for further consideration in the Stage 2 assessment:

- **Affordable Rental Housing** via the sale at an agreed discount, or the granting of management rights of an agreed percentage of total residential yield (developed properties) to a not-for-profit registered Affordable Housing organisation for the purposes of long-term affordable rental housing;
- **Shared Equity Home Ownership** via the sale of an agreed percentage of developed properties to eligible lower to moderate income households under an established not-for-profit company (registered with the Australian Charities and Not-for-profits Commission) shared-equity arrangement, with equity provided by the land owner to support the outcome to be reinvested in the local area in further shared equity outcomes upon sale or refinancing by the original purchaser;
- Potential for **Affordable Home Ownership** through an assessment of the estimated market values of dwellings in the development against a defined Affordable Housing price point (to be established in accordance with guidance and methodology expected to be provided by the State Government) and on the basis there is no gap and therefore subsidy or discount requirement; the sale of an agreed percentage of developed properties to households that are proven to meet State Government established Affordable Housing income bands published at the point of sale.

Further details on these models is set out within the Report and will be considered in the preparation of the Stage 2 Housing Diversity and Adaptability Report to be prepared as part of the Development Plan. The final package to be agreed could include one or a mix of these outcomes reflecting the State Government policy framework.

Consultation

The development of the Stage 1 Report included consultation with three Registered Housing Agencies as to their potential interest in the delivery of the 10 per cent requirement on the Site.

Agencies confirmed their interest in an opportunity to work with the land owner representatives to determine an appropriate and achievable delivery arrangement in line with the options explored in this Report. Agencies are noted to be engaged in a number of similar discussions across metropolitan Melbourne and have the required skills to ensure the resultant dwellings are appropriately managed as Affordable Housing.

The development of the Stage 2 report will include comprehensive engagement with a number of housing agencies on the delivery model(s) with reference to the development context and market values to support determination as to their interest and capacity to partner.



State and Local Policy Context

An initial assessment of current Victorian policy and planning frameworks, local housing need, not-for-profit housing sector capacity, and Affordable Housing policy and funding environments has been undertaken to inform the preliminary analysis as to the type of housing diversity and affordability outcomes that may be reasonably delivered. This has included an assessment of:

- Plan Melbourne 2017 – 2050, specifically those sections in relation to housing diversity, planning instruments and Affordable Housing;
- Victorian Government housing policy, *Homes for Victorians*;
- Recent changes to the *Planning and Environment Act 1987* in relation to Affordable Housing objective, definition and income bands;
- State Government policy guidance in relation to voluntary planning agreements;
- The City of Yarra’s housing related Policies and specifically *Policy Guidance Note; Affordable Housing Outcomes at Significant Redevelopments (updated October 2018)*.

Key policy context is noted below.

State Government

The Victorian Government is responsible for a broad range of policy and investment levers that impact on housing diversity, affordability and the delivery of Affordable Housing.

The Victorian Government’s Housing Strategy; *‘Homes for Victorians’*, revised Planning Strategy; *Plan Melbourne*, and the Planning and Environment Act Affordable Housing definition reflects the breadth of housing diversity and Affordable Housing need. This need will ultimately only be met by significant Federal and State Government investment however, the State has recognised the planning system can play some role in contributing to this supply. *Plan Melbourne* Directions and Actions specifically support:

- Optimising housing diversity, choice and affordability through supporting urban renewal and encouraging mixed-use developments and greater housing diversity and density near employment and transport;
- Establishment of an Affordable Housing definition and Head of Power in the Planning and Environment Act;
- Providing greater clarity as to the circumstances under the *Planning and Environment Act* where a planning contribution to Affordable Housing may be voluntarily negotiated and to provide ‘best practice’ guidelines to support these discussions.¹

The State Government has reinforced that it is not supporting the provision of a mandatory ‘inclusionary zoning’ requirement on the market through the establishment of these tools.² Rather the State Government has:

- Established a definition of Affordable Housing, including setting income bands which households may be eligible for Affordable Housing and a list of Matters to guide determination of appropriateness of housing for these households;

¹ State of Victoria (2017) Plan Melbourne

² Hansard, Legislative Council, 19 September 2017



- Published guidance to support more informed and meaningful engagement between responsible authorities and land owners as to the type of Affordable Housing outcomes that may be voluntarily negotiated as part of the planning process;
- Establishing new subsidy opportunities for the market to access, including a \$1 billion Social Housing Growth Fund and low-interest loan arrangements for registered housing agencies;
- Supporting new Affordable Housing programs such as shared equity home ownership and more broadly, home purchase for First Home Owners.

The State Government guidance in relation to voluntary planning negotiations emphasises the voluntary nature of agreements and the need for sufficient value to be available to support costs of delivery. These partnerships between local authorities and land owners could result in a range of delivery models, including:

- Transfer of ownership of an agreed number of dwellings to a registered housing agency or the Director of Housing for use as social housing;
- The sale of dwellings to a registered housing agency at an agreed discounted price to be used in perpetuity as affordable rental;
- Offering units for sale to first home buyers through a shared equity scheme.³

The State Government is also noted to be actively supporting home purchase for First Home Owners.

Local Government

The City of Yarra is noted to have several policies that relate to the provision of Affordable Housing. These documents position the delivery of Affordable Housing within the context of its importance to supporting a socially, economically and culturally diverse community reside and work in Yarra.

It is noted:

1. State policy is noted to encourage the provision of Affordable Housing and changes to the Act confirm *facilitation of Affordable Housing* by local councils as an objective to be considered (not a mandatory obligation).
2. The Council's original Policy Guidance Note; *Affordable Housing Outcomes at Significant Redevelopments* (endorsed in December 2017) stated the Council will to seek at least 5 per cent Affordable Housing on all rezoned sites likely to yield around 50 or more residential dwellings. This Guidance Note was updated in October 2018 to a 10 per cent Affordable Housing objective.
3. This Guidance Note is not an Incorporated Document under the Yarra Planning Scheme.
4. The Council's Policy Guidance notes a definition of Affordable Housing that includes reference to low and moderate-income earners, and notes the Council's preferred delivery vehicle, being partnerships with registered housing associations or agencies.

Local Councils are noted to also have some (limited) tools available to directly fund or support Affordable Housing delivery that could further enhance the delivery arrangements, for example, Councils have the capacity to offer financial support in the form of rate rebates to not-for-profit housing agencies.

³ <http://www.vic.gov.au/affordablehousing/housing-supply-and-planning/inclusionary-housing.html>



Stage 1 Housing Affordability and Diversity Assessment

Housing Diversity

A preliminary overview of population and housing statistics to inform consideration as to proposed dwelling design and bedroom mix and the subsequent types of people and households anticipated to live within the development has been undertaken, set out below. This will be updated and expanded on in the Stage 2 Report.

Provision of a diversity of housing is recognised as a key Direction in Plan Melbourne:

Housing diversity relates to the size, cost, number of bedrooms, character and age of dwellings. It also extends to other types of housing, such as low-cost rental aged care, supported accommodation for people with disability, rooming houses, student accommodation and social housing. (Plan Melbourne, 2017, Direction 2.5)

The City of Yarra is an inner suburban Council undergoing significant urban renewal and change. The population and housing characteristics of the City of Yarra reflect a range of historical and wider socio and economic factors and locational characteristics that are informing the type of development response proposed on major sites suitable for redevelopment.

Population

In 2016, the resident population of Yarra was approximately 93,380, living in 44,033 dwellings. The average household size is 2.1 persons.⁴ The VIF1 housing and population forecasts indicate there will be 29,413 new residents and 13,431 new dwellings required by 2031. The additional 29,413 new residents will likely form households that are:

- 30 per cent Family households (including single parent families) (4,023 households);
- 23 per cent Couple households (3,059 households);
- 39 per cent Lone person households (5,252 households).⁵

A high percentage of residents (30.6 per cent) are aged between 25 and 34 years, followed by 'parents and home builders' (aged 35 – 49 yrs) at 22 per cent. 69 per cent of all persons are in employment (70 per cent in full-time employment).⁶

Housing Structure

The tenure profile in the City of Yarra reflects the higher percentage of young people (more likely to rent), the historical development of high-rise public housing than the rest of Melbourne with:

- 39 per cent purchasing or fully owned
- 40.3 per cent private renters
- 9.5 per cent social housing.⁷

⁴ idcommunity (2018) City of Yarra Profile, <https://profile.id.com.au/yarra/population>

⁵ Victoria in Future

⁶ idcommunity (2018) City of Yarra Profile, <https://profile.id.com.au/yarra/population>

⁷ idcommunity (2018) City of Yarra Profile, <https://profile.id.com.au/yarra/population>



It is also noted that in the City of Yarra:

- Families with children are most likely to live in semi-detached, row or terrace or townhouses;
- Lone persons are most likely to live in an apartment;
- Couples are likely to live in an apartment or semi-detached, row or terrace or townhouses;
- Group households are most likely to live in semidetached, row or terrace or townhouses or apartments; and
- One third of families with children live in apartments.⁸

These trends indicate an increasing need for a mix of dwelling types and sizes to be delivered in the City of Yarra, including one, two and three-bedroom dwellings that are appropriate for a range of households to rent and purchase. Population trends such as an ageing population and smaller household sizes also mean a greater need for smaller and accessible dwellings are likely to be needed in the market. A range of dwelling types that lead to diversity of price points are also required to support a diversity of households to enter the market either for purchase or rental.

Of note, the City of Yarra has a significantly higher percentage of households in social rental housing compared to Greater Melbourne (2.6 per cent) and other Inner Melbourne Councils (5.3 per cent average).⁹

The data indicates a need for long-term market and affordable rental to cater for high demand, and for an increase in options for people to move into affordable home ownership given the current high proportion of renter households relative to Greater Melbourne.

Proposed Project Response – housing diversity

The proposal is for a mixed-use, high-density development that is expected to deliver, subject to further market analysis, one, two and three-bedroom apartments. This is considered an appropriate urban response to the site context, location and the current understanding of current and future market demand that will result in a diversity of housing opportunities for the unmet and future population mix.

The project is reasonably likely to offer some product at a price point that is attractive for first home buyers and downsizers and will also provide opportunities for purchase for investors to then create private rental opportunities.

It is recommended that the refinement of the design in the next phase of planning consider adaptability of apartments, provision of a diversity of dwelling types and sizes, and the capacity to allow for floor plates to be combined deliver more family friendly apartment living. Other considerations such as intended usage of common spaces and accessibility of dwellings is also recommended to be considered in the detailed design phase.

This section will be updated and expanded in the Stage 2 Final Housing and Adaptability Report.

⁸ Data provided by the City of Yarra, March 2018

⁹ idcommunity (2018) City of Yarra Profile, <https://profile.id.com.au/yarra/population>



Affordable Housing Overview

Definition

The following definition of Affordable Housing was adopted in the *Planning and Environment Act 1986* on 1 June 2018:

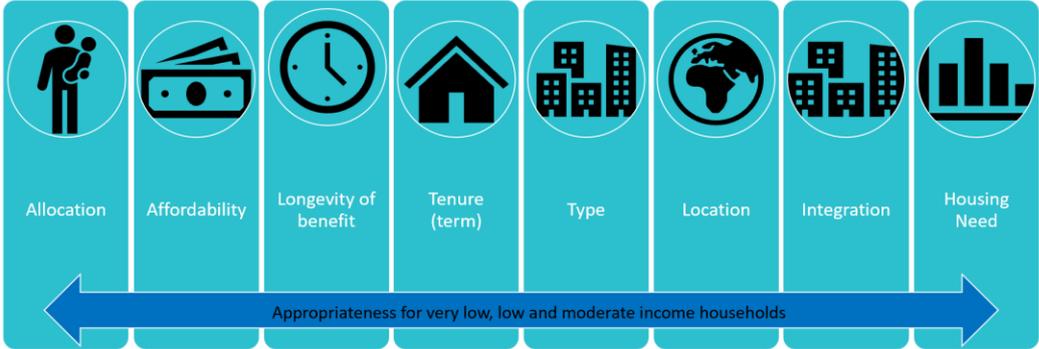
Affordable housing is housing, including social housing, that is appropriate for the housing needs of any of the following

- (a) *very low income households;*
- (b) *low income households;*
- (c) *moderate income households.*¹⁰

Income bands published by the State Government provide a clear benchmark of the incomes of households that may require Affordable Housing. Social Housing has separate income eligibility that approximately aligns to very low and low income bands.

Income bands – Greater Melbourne			
Household type	Very low	Low	Moderate
Single adult	Up to \$25,220	\$25,221 - \$40,340	\$40,341 - \$60,510
Couple, no dependent children	Up to \$37,820	\$37,821 - \$60,520	\$60,521 - \$90,770
Family (1- 2 adults with dependent children)	Up to \$52,940	\$52,941 - \$84,720	\$84,771 - \$127,080

The Government has set out the following list of ‘Matters’ that must be given regards to when assessing appropriateness of a proposed built form for an Affordable Housing purpose, illustrated below:



It is noted that the City of Yarra Policy Guidance references a similar definition to that adopted by the State and both reflect that low and moderate-income households may require Affordable Housing assistance.

As noted, the State Government is currently progressing several initiatives to support the translation of this definition to remove ambiguity, including the publishing of income bands and a methodology to guide the determination of affordability. The Government is also intending to provide a Guidance Note to support improved voluntary negotiation between responsible authorities and land owners in relation to Affordable Housing delivery, which is expected to inform the considerations the parties should give at the detailed Development Plan stage to determine an appropriate outcome in accordance with the definition.

¹⁰ Planning and Environment Act 1987



Types of Affordable Housing

The delivery of social and Affordable Housing is predominately the responsibility of the Federal and State Governments and is increasingly delivered with the support of not-for-profit housing agencies, both registered associations and providers and other charities. The delivery of Affordable Housing to very low income households requires a high level of subsidy and is therefore depends on Federal or State Government investment or support to be delivered.

There is a range of Affordable Housing delivery programs in operation in Victoria that are in accordance with the State Government adopted definition that respond to Affordable Housing need, including public and community housing, discounted rental housing, shared-equity affordable home ownership and housing that meets an established Affordable Housing price point.

The City of Yarra Policy Guidance is noted to prioritise Affordable Housing that is owned or managed by a registered housing organisation. The proposed Development Plan Overlay notes delivery via an arrangement with a 'state government accredited housing association' for dwellings to be 'purchased or managed by that association' or '...other arrangements for the provision of Affordable Housing by a Not for Profit (registered with the Australian Charities and Not-for-profits Commission' can meet the condition.

Preliminary Affordable Housing Need Assessment

The following key Affordable Housing statistics are noted to be relevant for the City of Yarra as at March 2018:

Affordable rental

- There is a significantly higher percentage of social housing dwellings in Yarra (9.5 per cent) compared to the rest of State (2.6 per cent) (2016);¹¹
- A review of Council rates data base in 2018 identified:
 - 4,765 properties managed by the Victorian Government and
 - 431 by Community Housing Providers or Associations,
 - a total of 5,196 dwellings that are classified as social housing.
- 1,066 very low – low income households are estimated to be living in private rental in the City of Yarra;¹²
- Median rents in the City of Yarra as at September 2017 ranged from \$380 per week for a one-bedroom flat to \$590 per week for a two-bedroom house and \$750 per week for a three-bedroom house;¹³
- 0.8 per cent of all new private rental dwellings in Yarra were assessed as affordable for households on statutory (Centrelink) income in September 2017 quarter;¹⁴
- Zero per cent of newly available one-bedroom rental dwellings were considered affordable during this period.¹⁵

Affordable Ownership

- In 2016, the median house price in the City of Yarra was \$1,254,000 and \$565,000 for apartments;¹⁶
- There has been a trending significant increase in median house values in the City of Yarra over time, with prices increasing at a faster rate that of Melbourne metropolitan area;¹⁷

¹¹ Idcommunity (2018) City of Yarra Profile, <http://profile.id.com.au/yarra/tenure>

¹² Idcommunity (2018) City of Yarra Profile, <http://profile.id.com.au/yarra/tenure>

¹³ Department of Health and Human Services (DHHS) (2017) Rental Report, September quarter 2017

¹⁴ DHHS, *ibid*

¹⁵ DHHS, *ibid*

¹⁶ The State of Victoria, Department of Environment, Land, Water and Planning (2017) *A Guide to Property Values, Annual data and analysis from Valuer-General Victoria 2016*; median prices, City of Yarra, pg.273

¹⁷ The State of Victoria, Department of Environment, Land, Water and Planning, *ibid*



- Home ownership rate for all households across Australia have fallen, with the steepest decline for households aged 24 – 35 years;¹⁸
- In 2016, 4.6 per cent of the lowest income households (bottom 40 per cent of incomes) in the City of Yarra purchasing their dwelling were experiencing mortgage stress;¹⁹
- In 2016 there was a lower and declining level of households in Yarra that owned their dwelling outright (18 per cent) or were purchasing their dwelling (20.4 per cent).²⁰
- While in some markets products may be affordable for rent or purchase, low to moderate income households may struggle to access due to competing market demand.

Proposed Affordable Housing Criteria and Project Response

Taking in to consideration current Affordable Housing need, the planning circumstances, the likely development proposition and characteristics, the current capacity of the not-for-profit sector to support the delivery of outcomes and expected future guidance and support from the State Government, the following is proposed to guide the future determination and agreement between the land owner and Council as to how the 10 per cent Affordable Housing will be delivered.

Objectives

The following objectives are proposed to be addressed through the land owner’s proposal and form the criteria for confirming the proposal at permit application stage:

1. **Deliverable:** Ten (10) per cent of dwellings to be delivered as Affordable Housing within the development of the Site, noting this percentage exceeds the minimum policy aspirations of the Council. The proposal is adequately supported by any third-party partner, investor or housing manager.
2. **Targeted and appropriate:** The dwellings will be made available to and are appropriate for low to moderate income households (or particular household groups as agreed) that require assistance to secure and maintain Affordable Housing in the local area at a price affordable for these households’ financial means. Appropriateness includes consideration of affordability (rent setting or price points), accessibility, amenity (public and private), tenure, built form, location and response to housing need as per the Government published Matters;
3. **Long-term affordability:** The value created to support the delivery of the dwellings will be appropriately managed and retained in the Affordable Housing sector in the long-term. Should dwellings be sold for individual purchase such as under a shared equity arrangement, an appropriate process to ensure proceeds are secured and are re-invested in addressing future Affordable Housing need is required. Affordability for owners and users is also taken into consideration in design;
4. **Quality and integration:** Affordable Housing should:
 - Adhere to all standard planning, urban design and architectural guidance in accordance with State and local planning policy and urban design frameworks unless sufficient justification for a variation;
 - Be as far as practical and to the satisfaction of the end owner/manager, integrated with private housing;
 - Externally appear no different from the market housing component;
 - Internally be the same as the market housing component unless the end owner/manager directs otherwise; and
 - Be constructed with regards to long-term affordability and operational costs.

¹⁸ <https://theconversation.com/home-ownership-remains-strong-in-australia-but-it-masks-other-problems-census-data-80068>

¹⁹ Idcommunity (2018) City of Yarra Social Atlas, <http://atlas.id.com.au/yarra/maps/mortgage-stress>

²⁰ Idcommunity (2018) City of Yarra Profile, <http://profile.id.com.au/yarra/tenure>



Affordable Housing Delivery Proposal

The specific means by which the delivery of 10 per cent Affordable Housing will be achieved on the Site will be assessed in detail and discussed with Council with reference to the preceding criteria during the development of the permit application and Stage 2 Report. This process is expected to take into consideration guidance expected to be provided by the State Government as to the potential structure of voluntarily agreed outcomes and the wider policy and funding circumstances at the time.

The following Affordable Housing delivery vehicles are noted as potential models that could be further assessed and applied in agreement with the responsible authority;

1. **Affordable Rental Housing** via the sale of an agreed percentage of total residential yield (developed properties) at an agreed value to a not-for-profit registered Affordable Housing organisation for the purposes of long-term rental housing;
2. **Shared Equity Home Ownership** via the sale of an agreed percentage of developed properties to pre-qualified eligible lower to moderate income households under a not-for-profit driven cent shared-equity arrangement, with future sale proceeds to be reinvested in the local area in further shared equity;

Other models that could also achieve the objectives and that are suggested for further investigation include a potential affordable home ownership sale arrangement. This model is adopted in South Australia where relatively high Affordable Housing requirements are negotiated and entails an assessment of the proposed market values of dwellings in the development against a defined Affordable Housing price point to determine if an affordable price point can be achieved without subsidy or discounting. The purpose of this model is to ensure affordable priced product is made available to lower to moderate income households to purchaser, recognising these households may not get first access to purchase with longevity of Affordable Housing captured through the product's market affordability relative to other products in the market.

Further details on these models is set out below and will be further explored and where agreed, expanded on in the preparation of a Stage 2 Housing Diversity and Adaptability Report to be prepared. The final package could include one or a mix of these outcomes if agreed between the land owner and responsible authority.

The exact percentages and discounts to be provided to support these outcomes will be determined during the development of the detailed planning application at which point development yield, market values, delivery timeframes and not-for-profit sector interest and capacity will be clearly established. It is noted that the realisation of this outcome is expected to require the land owner to forego a percentage of revenue to support the realisation of this requirement. The level of contribution that may be made will depend on market values, the level of third-party funding support, and the property type to be sold, noting that any outcome must be commercially viable to ensure it does not have unintended market consequences.

Industry engagement

At the point market pricing is established, detailed engagement with the not-for-profit housing sector will occur to establish local Affordable Housing need, housing agencies interests and financial capacity (including access to grants), and the preferred sale or management arrangement.

The not-for-profit housing sector has expressed an interest in working with the City of Yarra and land owners to develop workable solutions to meet voluntary Affordable Housing agreements in the City and deliver housing outcomes to meet local need. The sector also has some limited capacity to bring debt or equity to support the required percentage of outcomes and therefore engagement at the point of model refinement is recommended.



It is noted that industry engagement on a current permit application in the Cremorne area comprising of a five per cent Affordable Housing outcome, proposed as a mix of discounted sale for affordable rental and sale through a shared equity program managed by a registered not-for-profit charity, has received favourable support by the sector who have indicated a strong interest in new Affordable Housing opportunities in the City of Yarra.

Proposed delivery vehicles for further investigation

Affordable rental housing

Reflecting the current need for affordable rental housing, a percentage of total developed properties could be delivered into an affordable rental housing outcome in accordance with the Council's preferred policy position.

In Victoria, Registered Housing Associations or Providers are the primary managers of affordable rental housing. These organisations are regulated by the State Government and must meet a range of compliance and performance standards.

An affordable rental housing outcome could be achieved by the land owner developing the units and selling an agreed percentage of dwellings at an agreed value to a not-for-profit registered housing agency for the purposes of long-term affordable rental housing. Depending on market values, preferred property types and whether other subsidy is available will influence the sale arrangement.

Upon the sale of the units the housing organisation will be responsible for all rates, taxes, ongoing maintenance, body corporate fees and tenancy and property management and will apply household eligibility requirements to determine the dwelling allocation and affordability benchmarks to set rent.

Affordable home ownership (Shared Equity)

The City of Yarra is noted to have a lower rate of home ownership compared to Greater Melbourne. Moderate income households that traditionally moved in to home ownership are increasingly locked out of purchase without dedicated affordable purchase options. This impacts on the economic prosperity of an area, as key workers are increasingly unable to live close to employment. An Affordable Housing outcome targeting moderate income working households with some capacity to service a mortgage but a lack of a deposit or capacity to finance dwellings at full market value through the sale of a percentage of dwellings via a dedicated affordable shared equity home ownership program will therefore support greater population diversity and wider economic objectives of Council while responding to established Affordable Housing need.

Shared equity initiatives are targeted to lower and moderate-income households with the capacity to borrow from a bank but who are unable to raise sufficient deposit or finance to purchase at market values.

Existing shared equity programs work by an organisation facilitating support for a household to purchase a property as home owners by reducing the size of the bank loan the household needs to raise. There is currently one not-for-profit company that has a working shared equity model and the proposal is therefore based on this organisation's approach. At the point of permit development, the market will be tested to confirm the most appropriate shared equity model and operator. Shared equity works by:

- Income bands to be targeted for support are identified and their purchasing capacity and the gap between this capacity and market values of the dwelling in question is established;
- The purchaser secures finance an agreed per cent of the purchase price based on their income capacity through normal lending channels with the support of the NFP company;
- The remaining percentage of purchase price of the property is agreed to be provided as 'social equity investment' to support a lower to moderate income purchaser meet the costs of purchase;
- The social equity investment support is provided by the land owner or future land owner foregoing a percentage of market value on the nominated properties;



- The social equity investment (the difference between the market value and the purchaser's mortgage) is then appropriately secured to ensure the first purchaser does not benefit with a 'windfall gain';
- On the future sale or refinancing of the property, the social equity investment is repaid back to the not-for-profit housing organisation that manages the arrangement, enabling it to be reinvested in a future shared equity arrangement in the local area.

Affordable home ownership (market sales)

Reflecting the current need for more affordable home purchase opportunities that are available to aspiring purchasers who have capacity to service a mortgage at full market value but are pushed out of the market by competition from higher income households including investors, a percentage of dwellings could be directed to an affordable home ownership purpose without the need for subsidy or discounts assuming an 'affordable price point' can be achieved without discounting or subsidy and on the basis that this results in a long-term Affordable Housing outcome beyond the initial purchaser.

Affordable sales is a key component of the South Australian approach, where Affordable Housing is similarly defined as 'dwellings appropriate to the needs of households with low and moderate incomes (i.e. up to 120% of gross annual median income)' and developer negotiations can include homes offered for sale at or below nominated price points to an eligible buyer where buyer eligibility is set with reference to income. Under the South Australian policy there is a clear and accountable process for advertising and selling dwellings that are subject to the requirement. It is noted that 47 per cent of the affordable dwellings delivered under the South Australian Government's 15 per cent policy between 2005 and 2015 were delivered under this approach. As there is no subsidy or discounting there is no long-term covenant placed on the properties as it is acknowledged that long term affordability is delivered through the lower market value of the product relative to other dwellings in the market.

The appropriateness of this model for application to this Site will be assessed at the point further design, costings and market pricing has been established and will be done with reference to the criteria within this report and State Guidance in relation to determining affordability for different household groups.

The assessment of this model's applicability will be undertaken with reference to the proposed market values and an assessment as to what an affordable price point would be for households that fall under the State Government published income bands for Affordable Housing. The State Government has provided guidance as to what an 'affordable price point' is by setting out assumptions to calculate price points when considering appropriateness and affordability of housing for lower income households.

Where there is no gap (i.e. the proposed dwellings will be below the affordable price point) a process would then be required to ensure those agreed dwellings are sold to households that met established Affordable Housing income bands.

A registered housing agency or other appropriately qualified not-for-profit housing agency could oversee the income eligibility testing to ensure dwellings are sold to lower income households. There is no 'windfall gain' for the purchaser as the purchase price is market price, with checks in place to ensure market valuation.

This model could deliver targeted and appropriately allocated long term Affordable Housing outcomes through the relative affordability of the dwellings compared to other dwellings in the market. Further investigation will occur in Stage 2 to determine if this is an appropriate model for this development context and if so, whether covenants or other legal instruments could restrict sales to future lower income households without unduly limiting purchaser's borrowing capacity.

It is important to reiterate that there is no 'windfall gain' in this model as the housing is not subsidised, rather the Affordable Housing outcome is achieved through ensuring households that meet established State Government income band eligibility have first access to purchase products that are affordable to these households through their lower price relative to other product on the market.



Determination as to the suitability of this model will be undertaken in Stage 2 and will include an assessment as to whether the proposed product offering is at or less than an agreed affordable price point without any discount or subsidy at the point of permit approval and then again at delivery with consideration to an appropriate mechanism to provide longevity of Affordable Housing. Should this model be considered appropriate for further investigation at this point, further discussion with Council will also occur.

Should an affordable price point not be achieved without a need for a discount or subsidy component, then this model would not be applied and instead the shared equity model would be considered an appropriate means of capturing any developer contribution provided to reach an agreed affordable price point and ensure the long-term reinvestment of this contribution.

Securing the outcome

The following steps are proposed to occur to ensure an agreed outcome will be achieved and appropriately secured:

1. The Schedule 15 to the Development Plan Overlay to include a reference to the requirement to deliver 10 per cent Affordable Housing and for the land owner to provide a Housing Diversity and Adaptability Report as part of the Development Plan confirming how this outcome is proposed to be achieved.
2. The land owner to engage with not-for-profit housing organisations at the point development yield, timing and estimated market values are known to confirm their interest and capacity to support the proposed outcome.
3. The land owner to undertake a process to confirm a partnership with a registered not-for-profit housing agency or agencies to deliver the proposed outcomes.
4. The land owner and the responsible authority to confirm acceptance of the proposed approach to deliver on the outcome.
5. The land owner to enter into a Section 173 Agreement with the responsible authority confirming the delivery approach by which the commitment will be achieved.
6. Proof the land owner has met the voluntarily agreed outcome to be provided at settlement at which point the Section 173 requirement is removed.

